

Message Text

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TAGS: EINV EIND MU
SUBJECT: OMAN INDUSTRIALIZATION PLANS EXPERIENCE DIFFICULTIES

REF: (A) MUSCAT A-51, (B) MUSCAT 234, (C) MUSCAT 229

1. SUMMARY: RECENT DISCUSSION BY EMBOFF WITH UNDERSECRETARY ALI DAWOOD OF OMAN COMMERCE MINISTRY CONFIRMED OUR BELIEF THAT OMANGOV HAS ONLY SKETCHY PLANS FOR INDUSTRIALIZATION, AND MANY SCHEDULED PROJECTS ARE PROBABLY NOT FEASIBLE. AFTER THE COMPLETION OF NATURAL GAS PIPELINE FROM THE INTERIOR BY WINTER 1977/78, SOME LARGER PROJECTS SUCH AS CEMENT PLANT AND RE-ROLLING MILL/SPONGE IRON COMPLEX SHOULD GET UNDERWAY. MOST COMMERCE MINISTRY PROJECTS, HOWEVER, ARE NOT ECONOMICALLY VIABLE AND PROBABLY WILL NOT BE REALIZED. SHORTAGE OF LOCAL COMMERCIAL CREDIT AND LACK OF INTEREST BY FOREIGN INVESTORS MAKES PROJECT FINANCING DIFFICULT TO OBTAIN. UNTIL COMMERCE MINISTRY IS ABLE TO FORMULATE COHERENT PLAN WITH WELL-DEFINED PRIORITIES, AMBITIOUS INDUSTRIALIZATION EFFORTS
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WILL CONTINUE TO LAG. END SUMMARY.

2. CONCERNED BY POSSIBLE DROP IN PETROLEUM REVENUES OVER NEXT DECADE, OMANGOV IS NOW SEEKING REVENUE-GENERATING PROJECTS WITH EXPORT POTENTIAL RATHER THAN EXCLUSIVELY EMPHASIZING INFRASTRUCTURE DEVELOPMENT. OMANIS WILL NO LONGER ACCEPT

TURNKEY PROJECTS BUT PREFER FOREIGN COMPANIES TO CONTRIBUTE CAPITAL AND MANAGEMENT EXPERTISE. COMMERCE MINISTRY IS TRYING TO AVOID UNPRODUCTIVE VENTURES BY ENSURING THAT PROJECTS ARE MOSTLY FINANCED BY EXTERNAL CAPITAL OR SUBSCRIPTIONS FROM OMAN'S PRIVATE SECTOR. DESPITE THESE LAUDABLE OBJECTIVES, HOWEVER, OMANGOV HAS BEEN UNABLE TO AROUSE MUCH INTEREST BY FOREIGN FIRMS, AND THERE HAS BEEN LITTLE DEVELOPMENT OF OMAN'S INDUSTRY DURING THE PAST YEAR.

3. OMANGOV'S OBTAINING FINANCING FOR NATURAL GAS PIPELINE SHOULD MAKE CERTAIN MEDIUM-TO-LARGE INDUSTRIAL PROJECTS POSSIBLE. REROLLING MILL/SPONGE IRON COMPLEX (REF B) IS STILL UNDER CONSIDERATION; KUWAITI CONSORTIUM IS PLANNING TO CONTRIBUTE MOST OF CAPITAL AND HAS ALREADY DISCUSSED PROJECT WITH U.S. FIRM. (TWO EUROPEAN FIRMS WHICH HAVE ALREADY BID FOR PLANT CONSTRUCTION WERE NOT INTERESTED IN POST-COMPLETION MANAGEMENT.) A GAS-FUELED ALUMINUM SMELTER IS ALSO BEING STUDIED. CEMENT PLANT WHICH WAS APPROVED IN 1974 WILL GET UNDERWAY THIS FALL, SINCE BRITISH PARTNER IN JOINT VENTURE HAS FINALLY BEEN ABLE TO GET FINANCING. PETROLEUM MINISTRY HAS INDICATED THAT GAS DISTRIBUTION NETWORK WILL BE REQUIRED ONCE PIPELINE TO THE COAST IS COMPLETED LATE NEXT YEAR AND SUGGESTED THAT U.S. FIRMS EXPLORE THIS PROJECT IN 1977. DAWOOD INDICATED THAT OMANGOV IS GOING SLOW ON APPROVING OTHER LARGE INDUSTRIAL PROJECTS IN ORDER TO ENSURE ADEQUATE SUPPLY OF WATER AND ELECTRICITY.

4. LIGHT INDUSTRY IS ALSO LAGGING BECAUSE OF SHORTAGE OF LOCAL CAPITAL. AFTER REORGANIZATION AND SPECIAL STOCK SALE IN MAY 1976, CONSTRUCTION OF FLOUR MILL HAS RESUMED AND SHOULD BE COMPLETED BY END OF NEXT YEAR. U.S. EXPATRIATE (REF C) NOW WORKING IN COMMERCE MINISTRY HAS BEEN CHOSEN TO RUN MILL. WE DOUBT THAT MANY OTHER FACTORIES WILLBE BUILT IN 1976 OR 1977. COMMERCE MINISTRY HAS RECEIVED WIDE ARRAY OF CONSULTING REPORTS LIMITED OFFICIAL USE

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ON PROJECTS RANGING FROM DRYDOCK AND VEHICLE ASSEMBLY PLANT TO GLASS, SHOE, SOAP, AND MATCH FACTORIES. MOST OF THESE PROJECTS EXIST ONLY ON PAPER, AND THEY PROBABLY WOULD NOT BE VERY PROFITABLE, BECAUSE ALL RAW MATERIALS AND EQUIPMENT WOULD HAVE TO BE IMPORTED AT HIGHER-THAN-AVERAGE COST. DAWOOD INDICATED THAT SOME ATTEMPT HAS BEEN MADE TO COORDINATE INDUSTRIAL PROJECTS WITH OTHER GULF STATES TO PREVENT OVERCAPACITY.

5. OMANGOV IS DOING EVERYTHING POSSIBLE TO GET FINANCING NECESSARY FOR THESE PROJECTS. SIGNIFICANT AMOUNTS OF EXTERNAL CAPITAL HAVE BEEN PROMISED BY KUWAIT AND ABU DHABI. DESPITE OFFERS OF 5-YEAR TAX HOLIDAY AND 51 PER CENT CONTROL OF JOINT VENTURES, OMANGOV HAS NOT BEEN ABLE TO ATTRACT LARGE EQUITY PARTICIPATION BY U.S. AND EUROPEAN FIRMS. COMMERCE MINISTRY IS SELLING MANY OF ITS SHARES IN SUCH PROJECTS AS FULF HOTEL TO LARGE OMANI MERCHANT FAMILIES AS WELL AS NATIONALS OF OTHER GULF STATES AND IS TRYING TO CREATE SOME SORT OF LOCAL EQUITY MARKET. HOWEVER, COMMERCIAL BANKS IN OMAN ARE TIGHT ON EXTENDING CREDIT, AND LOCAL INVESTORS ARE WARY OF PROJECTS WHICH MIGHT NOT HAVE IMMEDIATE PAYBACK.

6. COMMENT: DESPITE COMMERCE MINISTRY'S PRAISE-WORTHY INTENTIONS, IT HAS NOT BEEN SUCCESSFUL IN DEVELOPING COHERENT PLAN FOR INDUSTRIALIZATION. POWER HAS FLOWED FROM COMMERCE MINISTRY TO MINISTRY OF AGRICULTURE, FISHERIES, PETROLEUM AND MINERALS TO SUCH AN EXTENT THAT COMMERCE MINISTRY HAS LITTLE OR NO INPUT IN PLANNING OR MANAGING WIDE RANGE OF PROJECTS FORMERLY UNDER ITS JURISDICTION. LARGER PRIVATE MERCHANTS IN OMAN ARE FAR MORE INTERESTED IN IMPORTING AND RETAIL OPERATIONS THAN IN INVESTING THEIR MONEY IN FACTORIES. COMMERCE MINISTRY OFFICIALS HAVE NOT SET PRIORITIES FOR INDUSTRIALIZATION, AND THEIR INVITATIONS FOR AMERICAN PARTICIPATION ARE TOO VAGUE TO SATISFY U.S. COMPANIES. WE DOUBT THAT OMAN'S INDUSTRIALIZATION WILL MOVE FORWARD UNTIL GAS PIPELINE IS AN ACCOMPLISHED FACT.
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